

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 104

January 29, 2013

SUMMARY OF BILL: Exempts from state and local sales tax the retail sale of gold and silver bullion when used as a medium of exchange, security, or commodity.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$2,891,900

Decrease Local Revenue – Net Impact – \$1,180,100

Assumptions:

- According to the Department of Revenue (DOR), and based on a study conducted by the Washington State Department of Revenue entitled *2012 Tax Exemption Study*, and further based on adjustment which takes population into account, taxable sales in Tennessee for gold and silver bullion which is used as a medium of exchange, security, or commodity, are reasonably estimated to be \$90,000,000.
- Fifty percent of taxable sales are for gold, and silver bullion sold online for which no state and local sales tax is collected or remitted under current law due to nexus-related issues.
- Adjusted taxable sales are estimated to be \$45,000,000 (\$90,000,000 x 50.0%). This number is assumed to remain constant into perpetuity.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$3,150,000 (\$45,000,000 x 7.0%); the recurring decrease in local option sales tax revenue as a result of the proposed exemption is estimated to be \$1,125,000 (\$45,000,000 x 2.5%).
- Pursuant to Tenn. Code Ann. § 67-6-103, local governments receive 4.603 percent of all state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.

- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% $[(5.5\%/7.0\%) \times 4.603\%]$.
- The recurring decrease in local revenue pursuant to the state-shared allocation as a result of the proposed exemption is estimated to be \$113,936 $(\$3,150,000 \times 3.617\%)$.
- The net recurring decrease in state sales tax revenue as a result of the proposed exemption is estimated to be \$3,036,064 $(\$3,150,000 - \$113,936)$.
- The total recurring decrease in local sales tax revenue as a result of the proposed exemption is estimated to be \$1,238,936 $(\$1,125,000 + \$113,936)$.
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- Recurring tax savings are estimated to be \$4,275,000 $(\$3,150,000 + \$1,125,000)$.
- The recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$149,625 $(\$4,275,000 \times 50.0\% \times 7.0\%)$.
- The recurring increase in local option sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$53,438 $(\$4,275,000 \times 50.0\% \times 2.5\%)$.
- The recurring increase in local revenue pursuant to the state-shared allocation as a result of 50 percent of tax savings being spent in the economy is estimated to be \$5,412 $(\$149,625 \times 3.617\%)$.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$144,213 $(\$149,625 - \$5,412)$.
- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy is estimated to be \$58,850 $(\$53,438 + \$5,412)$.
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$2,891,851 $(\$3,036,064 - \$144,213)$.
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$1,180,086 $(\$1,238,936 - \$58,850)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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